HOUSING MARKET OUTLOOK
St. John's CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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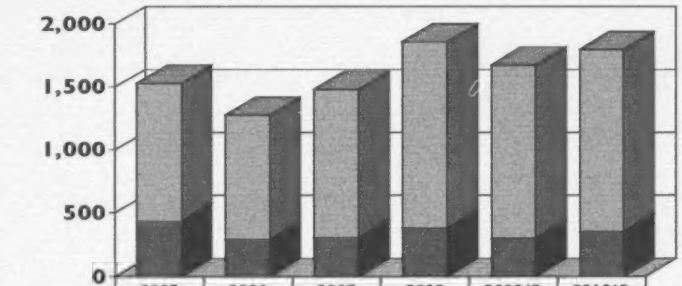
Housing Market Growth to Continue

The St. John's area housing market has been driven by a timely blend of resilient consumer spending, large capital projects and improved employment, which have resulted in reducing out-migration and continued population growth. Despite the recent global economic uncertainty, strong fundamentals have, and will continue to support demand for housing throughout the remainder of 2009 and in 2010. Accordingly, growth in the local housing market is expected to continue. The buoyant local renovation sector will be stimulated by the home renovation tax credit. Also, historically low mortgage rates have reduced the cost of borrowing, but some buyers remain sensitive to the considerable price growth that has occurred in this

Figure 1

Healthy New Home Demand

Housing Starts- St. John's Region



	2005	2006	2007	2008	2009(f)	2010(f)
Singles	1,096	985	1,174	1,485	1,375	1450
Multiples	438	290	306	378	300	350

Source: CMHC

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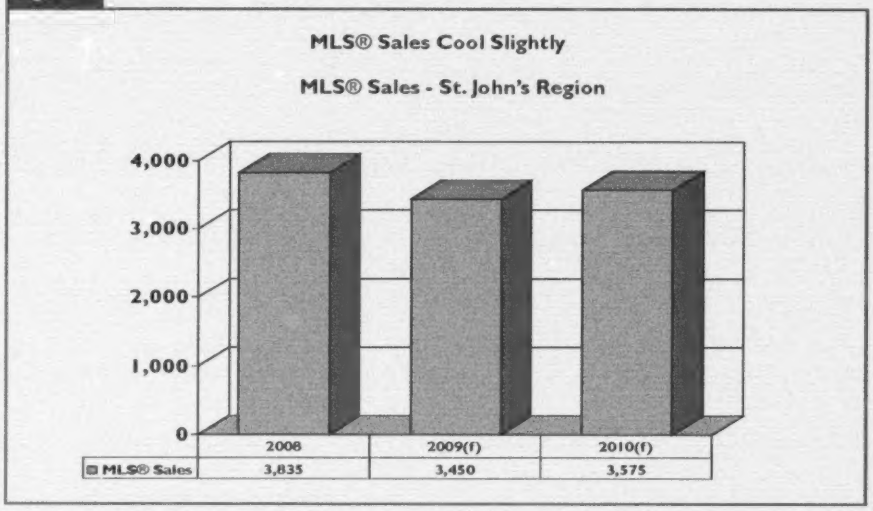
market. Personal income growth has been aided by wage gains and tax cuts and this income growth has offset higher house prices somewhat and will continue to provide support to housing starts in 2010. Overall, the positive outlook for the St. John's area housing market will be reinforced by favourable trends in demographic and economic fundamentals, as well as consumer spending and on-going economic momentum supported by a lengthy list of major capital projects.

Figure 2



Source: CREA, CMHC Forecast
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Economic Trends

Local Economy

Despite the global economic situation over the past year, several planned and realized major capital projects continue to inject stimulus into the local economy and contributed to increased resiliency on the part of consumers. Consumers, a key component of economic growth in 2008 through related spending on retail, auto and housing activity, have been more cautious in 2009, but still remain positive overall, as spending activity continues to show growth. However, natural declines in offshore oil production will dampen GDP growth this year and next. During 2008, oil production declined nearly seven per cent over 2007 levels. This year, oil production is expected to decrease 21 per cent, with declines at all three producing oil fields. Weaker offshore oil production will dampen growth over the 2009 to 2010 period, although increased royalties received by the province will contribute to economic growth. Weak commodity prices have resulted in decreased and/or suspended mineral exploration and mining extraction activity in the interior region of Newfoundland, as well as Labrador this year. However, global resource prices have begun to rise again, which will add to economic growth in 2010. Coming off the heels of real GDP growth of 7.9 per cent in 2007 for NL and additional growth of 1.8 per cent in 2008, expect a 3.8 per cent decline in 2009 real GDP, led by lower oil, mineral and newsprint exports. A two per cent rebound in economic growth is expected in 2010.

Resale Market

MLS® Sales will Cool Slightly

With record sales posted during the past several years, the St. John's area resale market is expected to cool slightly in terms of total unit sales. Accordingly, the forecast calls for MLS® sales of 3,450 units this year, down ten per cent from 3,835 in 2008, with 3,575 sales expected in 2010. With many newly built homes now selling through the MLS® system, healthy residential construction activity will continue to have a positive impact on total MLS® sales. Unprecedented housing market activity in 2008 favoured sellers, with a market characterized by above average unit sales, very low available inventory and 20 per cent average price growth. However, throughout this year, the market has favoured buyers. A marginal downward trend in sales has resulted in more inventory, while prices have continued to advance. In fact, active listings or inventory have trended 33 per cent higher in 2009 compared to last year. With demand expected to cool only slightly over the forecast period, unit sales will remain historically strong, but will not exceed recent record levels. While increasingly favourable for buyers, weaker resale market conditions have proved challenging for some sellers, resulting in fewer offers on higher priced listings, with offers often significantly below list price. With increased inventory available to choose from, many buyers have fared well in their search for an existing home this year and in some cases,

people are being swayed away from the higher-priced new home market. The growing new versus existing house price premium has resulted in increased first-time buyer activity within the lower-priced resale market and this trend will likely continue, with prices expected to head higher.

Resale Market Normalizes

Historically, the St. John's area resale market tends to be balanced, with buyers and sellers equally aligned. However, record sales activity three years ago was offset by a sizeable surge in active listings and drove inventory to a seven-year high in 2006. With so much inventory available for sale, the St. John's resale market favoured buyers until mid 2007. Increased economic activity and in-migration to the St. John's region, combined with a stable resale market, quickly positioned the market to favour sellers early in 2008. The onset of global economic uncertainty last fall caused the strong local sellers' market to weaken from its third quarter peak. As a result, the market rapidly moved through balanced and into buyers territory by the end of the year and has continued to fluctuate in and out of buyers and balanced territory throughout 2009.

In terms of unit sales, the market slowed after its third quarter peak in 2008 and has remained down, on average, ten per cent throughout 2009. There have been few multiple offers, or offers at or above asking price this year. Inventory has increased approximately 33 per cent and listings are sitting on the market longer – 45 to 60 days on average. Prices, however, have continued to rise. Having peaked during the height of last year's sellers market, the sales-to-active listings ratio has fluctuated in and out of buyers and balanced territory. As a result, the local resale market is expected to remain slightly balanced, with buyers still holding the upper-hand heading into 2010.

Price Growth will Moderate

With the local resale market returning to more normal conditions, the expectation is for price growth to continue, albeit at a reduced pace in 2010. Coming off the heels of 20 per cent price appreciation in 2008, the average MLS® house price is forecast to end this year at $215,500, an increase of nearly 15 per cent over last year's average of $187,571. The average price should see an additional increase of about $10,000 in 2010, reaching an average of $225,500. Once again, active move-up buyers will cause the two-storey home category to lead price growth over the forecast period. However, the current cost of homeownership will continue to reduce two-storey demand from the first-time buyer segment. As a result, bungalows, semi-detached and row housing will remain solid homeownership alternatives for this group.

New Home Market

Healthy New Home Demand

After 2008's single-detached starts record, a natural slowdown in growth will occur in 2009, with improvement expected in 2010. Job and income growth, combined with low mortgage rates and steady in-migration flows, will provide support to local residential construction activity. Although total starts are expected to retreat over last year's 33-year high, new home demand will remain healthy in historical terms. Demand will be driven by positive economic and demographic trends, as well as positive net-migration within the St. John's region. The relative strength in the local resale or existing home market will also contribute to a healthy level of new home construction over the forecast period. However, continued price growth, combined with increasing development costs, will limit the amount of growth in the new home market. As demand for housing remains relatively healthy, this spillover effect is not expected to change significantly. Accordingly, total housing starts are forecast to decline ten per cent this year to 1,675 units within the St. John's region, with building activity increasing just over seven per cent in 2010 to 1,800 units.

Lower Multiple Starts Activity

The more volatile multiple unit segment is expected to decline 21 per cent to 300 units this year and rebound to 350 in 2010. With higher construction costs and increased build times, the number of single-detached homes with basement apartments continues to slow, as buyers opt for less expensive single unit homes. The mid-priced local condo market is developing slower than expected. However, smaller households and a rapidly aging population will continue to stimulate the condo market in St. John's, with condo development likely to increase in the coming years. Income growth, paired with low mortgage rates, will drive first-time buyer demand for new semi-detached and row housing. Record house prices should also create additional demand among buyers for these lower-priced products throughout the remainder of this year and next.

Rental Market

Vacancy Rate will Remain Low

Several factors will keep the vacancy rate low in 2009 and 2010. With historically high home prices, the movement of renters to homeownership will continue to slow. Also, increased economic activity will continue to have a positive impact on in-migration of workers to the St. John's area. Local colleges and Memorial University draw students into the region as well, many of whom are from outside the province and require rental accommodations. Investment in rental housing is expected to increase the apartment supply only slightly this year and next. Accordingly, the vacancy rate for surveyed structures containing three or more units is forecast to be at one per cent in 2009 and 1.5 per cent in 2010. With the vacancy rate remaining low, expect monthly rents to increase to $700 by the end of this year and to $725 in 2010. Rent increases will be supported by a combination of very low vacancy rates and landlords attempting to recover costs associated with maintaining an aging rental stock and higher energy costs.

Mortgage Rates

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Forecast Summary St. John's CMA Fall 2009	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	NA	NA	3,835	3,450	-10.0	3,575	3.6
MLS® Active Listings	7,292	7,416	7,520	7,000	-6.9	6,850	-2.1
MLS® Average Price ($)	139,542	149,258	187,571	215,500	14.9	225,500	4.6
New Home Market							
Starts:							
Single-Detached	985	1,174	1,485	1,375	-7.4	1,450	5.5
Multiples	290	306	378	300	-20.6	350	16.7
Starts - Total	1,275	1,480	1,863	1,675	-10.1	1,800	7.5
Average Price ($):							
Single-Detached	202,698	211,123	230,473	275,000	19.3	290,000	5.5
Median Price ($):							
Single-Detached	175,812	189,900	200,000	238,500	19.3	251,500	5.5
New Housing Price Index (% chg.)	3.7	5.0	19.6	15.0	n/a	4.0	n/a
Rental Market							
October Vacancy Rate (%)	5.1	2.6	0.8	1.0	0.2	1.5	0.5
Two-bedroom Average Rent (October) ($)	635	614	630	700	6.0	725	11.0
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-2.67	3.83	-0.20
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-1.51	5.75	0.20
Annual Employment Level	93,200	94,400	98,000	99,500	1.5	102,000	2.5
Employment Growth (%)	2.9	1.4	3.8	1.5	n/a	2.5	n/a
Unemployment rate (%)	8.2	6.9	7.8	8.0	n/a	7.5	n/a
Net Migration [1]	121	1,978	2,000	1,750	-12.5	2,000	14.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2008 migration data is forecasted

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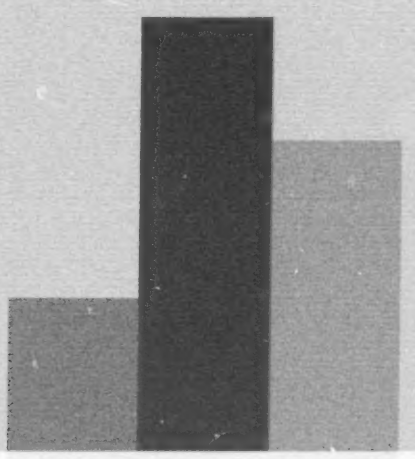

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